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**\*\*\*CORRECTED COPY\*\*\***

TO: Lovette Williams, Director  
Department of Transportation

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 24, 2008

RE: 2008-2009 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2008-2009 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General  
Pamela Scales, Budget Director  
Norman White, Finance Director  
Ron Chenault, Budget Department  
Barbara Hansen, DTC General Manager  
Kerwin Wimberley, Mayor's Office

## **Department of Transportation (20)**

### **FY 2008-2009 Budget Analysis by the Fiscal Analysis Division**

#### **Summary**

The Department of Transportation (DOT) is an Enterprise Fund Agency, but historically has not been self-supporting and has relied on contributions from the General Fund in order to present a balanced budget.

DOT's total 2008-2009 recommended budget is \$183.5 million. This represents a \$17.6 million (10.62%) increase from the current year's budget. Although DOT's net tax cost is zero, it does receive a recommended General Fund subsidy of \$84.6 million in the proposed budget.

Below is a sixteen-year history showing budgeted and actual transfers from the General Fund to the Transportation Fund:

| Fiscal Year | Budgeted Subsidy for DOT Operations | Budgeted Subsidy for People Mover Operations | Budgeted Total Subsidy | Ratio General Fund Subsidy to Total Revenues |
|-------------|-------------------------------------|--|------------------------|--|
| 2009        | \$78,355,490                        | \$6,229,976                                  | \$ 84,585,466          | 49.12%                                       |
| 2008        | 73,478,147                          | 6,229,976                                    | 79,708,123             | 48.05%                                       |
| 2007        | 70,155,651                          | 6,229,976                                    | 76,385,627             | 47.50%                                       |
| 2006        | 77,252,604                          | 6,229,976                                    | 83,482,580             | 49.06%                                       |
| 2005        | 69,614,983                          | 7,736,137                                    | 77,351,120             | 45.20%                                       |
| 2004        | 68,199,900                          | 10,265,050                                   | 78,464,950             | 45.00%                                       |
| 2003        | 67,575,767                          | 10,805,300                                   | 78,381,067             | 37.10%                                       |
| 2002        | 73,423,721                          | 11,374,000                                   | 84,797,721             | 40.60%                                       |
| 2001        | 68,477,884                          | 10,674,000                                   | 79,151,884             | 39.60%                                       |
| 2000        | 55,372,845                          | 9,255,000                                    | 64,627,845             | 33.60%                                       |
| 1999        | 52,372,845                          | 9,255,000                                    | 61,627,845             | 32.00%                                       |
| 1998        | 55,159,845                          | 8,500,000                                    | 63,659,845             | 35.60%                                       |
| 1997        | 57,058,845                          |  |                        | 38.60%                                       |
| 1996        | 43,433,734                          |  |                        | 30.80%                                       |
| 1995        | 37,986,051                          |  |                        | 29.40%                                       |
| 1994        | 26,831,243                          |  |                        | 22.30%                                       |
| 1993        | 30,423,067                          |  |                        | 23.70%                                       |
| 1992        | 35,472,696                          |  |                        | 25.30%                                       |

<sup>1</sup> Mayor's Recommendation in the 2008-2009 Executive Budget.

### Surplus/(Deficit)

There is currently no reported General Fund surplus or deficit in DOT for 2007-2008.

There is currently no reported General Fund surplus or deficit in DOT for 2006-2007.

At the end of Fiscal 2005-2006, per the Comprehensive Annual Financial Report (CAFR), the Transportation Fund is reporting a **\$20.97 million deficit**.

At the end of Fiscal 2004-2005, per the Comprehensive Annual Financial Report (CAFR), the Transportation Fund reported a **\$26.1 million deficit**.

### Overtime

| Fiscal Year            | Overtime Spent (millions) | Surplus/(Deficit) |
|------------------------|---------------------------|-------------------|
| <i>through 3/31/08</i> | \$13.31                   | (11.9)            |
| 2007                   | 15.66                     | (7.67)            |
| 2006                   | 13.73                     | (5.56)            |
| 2005                   | 18.23                     | (6.72)            |
| 2004                   | 21.42                     | (3.40)            |
| 2003                   | 20.96                     | (3.93)            |
| 2002                   | 19.92                     | (2.89)            |
| 2001                   | 21.19                     | (4.29)            |
| 2000                   | 21.80                     | (5.31)            |
| 1999                   | 20.74                     | (5.31)            |
| 1998                   | 18.40                     | (3.90)            |
| 1997                   | 16.87                     | (1.42)            |

The 2008-2009 Budget recommends an overtime budget of \$8.9 million, which is \$1.48 greater than the current year.

### Personnel and Turnover Savings

| Appropriation/Program                | Redbook<br>Positions<br>FY 2007-08 | Filled<br>Positions<br>03/31/2008 | Mayor's<br>Budget<br>Positions<br>FY 2008-09 | Over/(Under)<br>Actual to<br>07/08 Budget | Mayor's<br>Recommended<br>Turnover |
|--------------------------------------|------------------------------------|-----------------------------------|--|---|------------------------------------|
| <b>Transportation (20):</b>          |                                    |                                   |  |   |                                    |
| 200010 Administration                | 12                                 | 9                                 | 12   | (3)                                       | \$ -                               |
| 200011 DDOT Strategic Planning Div.  | 9                                  | 0                                 | 9  | (9)                                       | \$ -                               |
| 200012 DDOT Capital Projects Div.    | 2                                  | 0                                 | 2  | (2)                                       | \$ -                               |
| 200070 Mgmt. Information Svcs.       | 0                                  | 0                                 | 0  | 0   | \$ -                               |
| 200090 Finance                       | 36                                 | 40                                | 44   | 4   | \$ -                               |
| 200100 Grants Management             | 0                                  | 2                                 | 0  | 2   | \$ -                               |
| 200110 Customer Prog. & Comm.        | 14                                 | 12                                | 14   | (2)                                       | \$ -                               |
| 200150 Purchase & Cont. Admin.       | 15                                 | 12                                | 16   | (3)                                       | \$ -                               |
| <b>00146 Departmental Operations</b> | <b>88</b>                          | <b>75</b>                         | <b>97</b>                                    | <b>(13)</b>                               | <b>\$ -</b>                        |
| 200170 Building Maintenance          | 68                                 | 56                                | 67   | (12)                                      | \$ -                               |
| 200230 Risk Management               | 7                                  | 7                                 | 8  | 0   | \$ -                               |

|   |            |              |            |             |           |          |
|---|------------|--------------|------------|-------------|-----------|----------|
| <b>00149 Plant Maintenance</b>            | <b>75</b>  | <b>63</b>    | <b>75</b>  | <b>(12)</b> | <b>\$</b> | <b>-</b> |
| <b>200150 Purchase &amp; Cont. Admin.</b> | <b>0</b>   |              | <b>0</b>   |             | <b>\$</b> | <b>-</b> |
| 200280 Vehicle Maintenance                | 349        | 313          | 352        | (36)        | \$        | -        |
| 200290 Materials Management               | 28         | 30           | 29         | 2           | \$        | -        |
| <b>00150 Vehicle Maintenance</b>          | <b>377</b> | <b>343</b>   | <b>381</b> | <b>(34)</b> | <b>\$</b> | <b>-</b> |
| <b>00151 Vehicle Maintenance</b>          | <b>0</b>   | <b>0</b>     | <b>0</b>   | <b>0</b>    | <b>\$</b> | <b>-</b> |
| 200300 Vehicle Operation                  | 972        | 1,024        | 970        | 52          | \$        | -        |
| 200330 Service Development                | 0          | 7            | 0          | 7           | \$        | -        |
| <b>00151 Transportation</b>               | <b>972</b> | <b>1,031</b> | <b>970</b> | <b>59</b>   | <b>\$</b> | <b>-</b> |
| 20XXXX Leave of Absence                   | 0          | (12)         | 0          | (12)        | \$        | -        |
| 20XXXX Worker's Comp.                     | 0          | (39)         | 0          | (39)        | \$        | -        |
| 20XXXX Unmatched Positions                | <u>0</u>   | <u>19</u>    | <u>0</u>   | <u>19</u>   | <u>\$</u> | <u>-</u> |

Of the 11 new positions recommended, 8 are in Finance, 1 is in Purchasing, 4 in Vehicle Maintenance and a reduction of 2 in Vehicle Operation.

#### Significant Changes in Funding by Appropriation

#### Comparison of 2007-2008 Budget to 2008-2009 Recommended Budget by Major Object Group

| <u>Major Object Group</u> | <u>Change Amount</u> |
|---------------------------|----------------------|
| Salaries and Wages        | \$4,618,736          |
| Employee Benefits         | 1,778,133            |
| Prof/Contract Svcs        | 2,290,000            |
| Operating Supplies        | 3,860,000            |
| Operating Services        | 4,407,469            |
| Other Expenses            | 83,000               |
| Capital Acquisitions      | -3,000               |
| Fixed Charges             | 550,357              |
| Total                     | <u>\$ 17,584,695</u> |

#### Appro. Program

|       |             |  |
|-------|-------------|--|
| 00146 | Dept. Oper  | This appropriation increases by \$1.47 million. Employee costs increase by \$.569 million due to 9 new positions and the 4% general wage increase. There is a increase in professional and contractual services of \$500,000. There is a decrease in Operating Supplies of \$40,000. Operating services are increasing by \$337,000. |
| 00937 | Claims Fund | This appropriation increases by \$450,000. This is the premium that DOT must pay to the Risk Management Fund, the city's self-insurance fund, for legal settlements, workers comp costs and debt service costs. This rate is determined by the Budget Department and is based on actual five-year activity.                          |

- |       |                     |  |
|-------|---------------------|--|
| 00149 | Plant Maintenance   | This appropriation increases by \$900,000. Contractual Services are increasing by \$700,000.   |
| 00150 | Vehicle Maintenance | The appropriation is increasing by \$4.5 million overall, with the majority reflected in operating supplies  |
| 00151 | Transportation      | The appropriation is increasing by \$10.3 million. The ADA Transportation drops from \$7.5 million to \$4.5 million. Reflected in this budget is an \$11.2 million federal grant for preventative maintenance. |

#### **Department of Transportation (20)**

| Budgeted Professional and<br>Contractual Services by Activity | FY 2007-08<br>Budget       | FY 2008-09<br>Recommended   | Increase<br>(Decrease)     |
|---|----------------------------|-----------------------------|----------------------------|
| Administration  | \$ 245,000                 | \$ 745,000                  | \$ 500,000                 |
| Plant Maintenance & Construction                              | 1,125,000                  | 1,815,000                   | 690,000                    |
| Vehicle Maintenance   | -                          | -                           | -                          |
| Transportation  | <u>7,174,865</u>           | <u>8,274,865</u>            | <u>1,100,000</u>           |
| <b>Total</b>  | <b><u>\$ 8,544,865</u></b> | <b><u>\$ 10,834,865</u></b> | <b><u>\$ 2,290,000</u></b> |

#### **Significant Revenue Changes by Appropriation and Source**

The recommended budgeted fare box revenue of \$30 million accounts for 18% of DOT's operational costs. This is an increase of \$2.8 million from the current budget.

State reimbursement for operations is projected at \$52.3 million, a decrease of \$1.03 million or 1.9%.

Since 1998, the Feds no longer provide direct operational funding for transportation. The Feds will still provide capital grants for the purchasing of buses and they will now allow some transfers of operational maintenance costs to those grants that are awarded.

#### **Issues and Questions**

1. How was the department able to reduce the accumulated deficit by \$5 million?
2. Operationally is this a realistic budget that will allow DOT to maintain service levels? Did the recommended staff shifts result from any type of study?
3. Why was one federal grant included in the budget, when the department has never included grants before? Are operating costs still going to be charged off against other grants? Are those costs included in the budget or are they not even included? Where is the full picture of the true operational costs for the transit system? Why aren't all grants included in the budget as the department regularly receives these grants? Please provide a list of all grants.

4. Please provide a detailed list, by account, by cost center, the operating costs that will be charged to grants for the current fiscal year and next fiscal year.
5. Where is the payment to GE Capital for the buses purchased two years ago budgeted?
6. Explain the \$3 million decrease in the paratransit service contract?
7. How can the fuel account simply mirror costs of 2006-2007? Aren't the prices higher than two years ago?
8. Please provide a copy of this fiscal year's cash flow as well as cash flow projections through June 30, 2009.

Attachment: Fiscal Analysis Division's Review of the 2008-2009 DTC Budget

## **Detroit Transportation Corporation (People Mover)**

### **FY 2008-2009 Budget Analysis by the Fiscal Analysis Division**

#### **Summary**

The Detroit Transportation Corporation (DTC) was created by the City of Detroit pursuant to P.A. 7 of 1967 as a component unit of the city for the basic purpose of acquiring, completing and operating the Downtown People Mover.

The DTC is governed by a Board of Directors consisting of six members, appointed by the Mayor without compensation or set terms. The City Council President also sits on the board.

The DTC organization structure includes twelve divisions: Administration, Executive, Accounting, Field Operations, Homeland, Human Resources, Maintenance, Marketing, Operations Administration, Quality Control, Safety, and System Operations.

The recommended 2008-2009 Budget for the DTC is \$15.27 million, \$2.21 million greater (16.9%) than the current fiscal year budget, excluding depreciation.

The Mayor recommends a General Fund operating subsidy of \$6.229 million (45% of the operating budget) for the DTC, which passes through the Detroit Department of Transportation (DDOT). The DTC has received a General Fund subsidy of \$6.229 million for the past several years.

#### **2007-2008 Surplus/(Deficit)**

Based on documentation presented, it is unclear if the DTC is projecting a surplus or deficit.

The 2004-2005 financial statements (CAFR) reported that the DTC ended the fiscal year on June 30, 2005 with a \$6.8 million fund balance. The CAFR for 2005-2006 shows a \$9.7 million fund balance.

#### **Funding**

Attached is the DTC budget for FY 2006-2007.

#### **Revenues:**

Operating revenue (fare gate, tokens and passes) is increasing by \$2,600 (.02%).

Non-Operating revenue has a net increase of \$381,000, with \$265,000 coming from interest income and the remaining due to an increase in the federal grant.

There is no change to the city subsidy of \$6.23 million.

### Issues and Questions

1. Why are salaries increasing by 16%?
2. Explain the increase of \$3 million in fund balance from 04/05 to 05/06.
3. How is the current fiscal year projected to end – surplus or deficit?
4. When will the \$ 2 million in city bond revenue be used? Please explain the capital projects.
5. How much bond money has been appropriated to DTC in prior years? What is the remaining balance of those funds?

Land Sales – Please explain the last three years' proposals to sell \$2 million in real property.

6. Please explain the \$1 million in land sales for the 2006-2007 – has that taken place? What piece of property is it?
7. Please explain the \$500,000 in land sales proposed for the current and then the upcoming year –
8. Where is the land located?
9. How much other land does DTC have that is considered surplus?
10. Who provided the funds for the initial purchase of the land? Will that entity be reimbursed?

Attachments: DTC Budget 2008-2009



**Detroit Transportation Corporation**  
**COMPARATIVE BUDGET**  
**Fiscal Years 2008 and 2009**

|                                      | FY 07/08<br>Budget | FY 08/09<br>Budget |
|--------------------------------------|--------------------|--------------------|
| Operating Revenue                    | 1,082,400          | 1,085,000          |
| Operating Expenses                   |                    |                    |
| Salaries & Fringes                   | 5,136,430          | 5,947,761          |
| Benefits                             | 2,283,460          | 2,690,341          |
| Professional Services and Consulting | 490,000            | 579,000            |
| Advertising & Public Relations       | 187,500            | 219,182            |
| Insurance                            | 921,500            | 1,075,500          |
| Maintenance & Renovation             | 2,300,264          | 2,405,009          |
| Office Supplies                      | 47,850             | 22,500             |
| Rent                                 | 240,111            | 206,400            |
| Telephone & Utilities                | 651,000            | 897,000            |
| Depreciation                         | 8,316,130          | 7,089,030          |
| Other Expenses                       | 795,945            | 1,230,475          |
| Total Operating Expenses             | 21,370,190         | 22,362,198         |
| Operating Loss                       | (20,287,790)       | (21,277,198)       |
| Non-Operating Income                 |                    |                    |
| Rental Income                        | 22,000             | 22,000             |
| Interest Income                      | 134,685            | 400,000            |
| Advertising Revenue                  | 250,000            | 250,000            |
| Miscellaneous Revenue                | 0                  | 0                  |
| FTA Grant Revenue                    | 700,000            | 860,034            |
| ACT51 Grant Revenue                  | 4,250,000          | 4,205,832          |
| MDOT Rail Grant Revenue              | 434,000            | 434,000            |
| CMAQ Grant Revenue                   | 0                  | 0                  |
| Sale of Real Property                | 500,000            | 500,000            |
| Total Non-Operating Revenue          | 6,290,685          | 6,671,866          |
| Net Loss Before Operating Tfr        | (13,997,105)       | (14,605,332)       |
| Operating Transfer From City         | 6,229,975          | 6,229,975          |
| Restricted Non-Operating Revenue     |                    |                    |
| City Bond Revenue                    | 2,000,000          | 2,000,000          |
| DDA Grant Revenue                    | 0                  | 0                  |
| Net Loss After Operating Tfr         | (5,767,130)        | (6,375,357)        |
| Depreciation of Fixed Assets         |                    |                    |
| Acquired by Grants                   | 7,767,130          | 6,375,357          |
| Net Income (Loss)                    | 2,000,000          | 0                  |